A TEACHER GUIDE TO THE CALIFORNIA ECONOMICS STANDARDS

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A Teacher Guide to the California Economics Standards

## Introduction

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Dear Teacher,

As you are aware, the California Board of Education approved the History/Social Science Standards in 1998. The good news is that those Standards include a strong economics strand in the K-11 Standards and a new 12th grade course. The high school economics course outlined in the 1998 History/Social Science Standards is different than a typical micro-macroeconomics course. This guide is meant to help you recognize those differences and to suggest ways that might help you teach the course. It may be helpful, at the outset, to suggest the goals of a high school economics course.

The goals of the new course are to empower students with:
- the skill of economic reasoning that they can apply to any decisions they make,
- an understanding of the economic system in which they participate so that they can participate more effectively in that system, and
- an understanding of the macroeconomy so that they will understand the news that they see and hear.

To facilitate your understanding of the Standards, it may be helpful to identify the differences between the course that is outlined in the Standards and the typical micro/macro course. How are the 1998 Standards “New?”

The Standards are aimed at students who may or may not go on to college. The goal of the course is not to give students a heads up on the college course, but to prepare them for life. This is not a dumbing down of the course, rather it is an attempt to provide students with economic reasoning skills that they will use for the rest of their lives. In addition, the course is meant to give them an idea of the power that they have in the economy and the consequences of their choices.

The Standards de-emphasize the technical tools of economic analysis such as graphs and equations. While it is fine to use graphs in teaching the course, students can have a firm conceptual understanding of economics without an ability to manipulate the graphs. Research in economic education tells us that the graphs increase understanding for a small portion of our students and confuse many others. In this case, the statement may be true that students understand economics until we teach it to them. The emphasis in Standards is on conceptual understanding which is sometimes more difficult than graphical manipulation.

In this Guide, our approach has been to begin by presenting the tools of economic reasoning. The first six units help you teach the reasoning skills. Unit One discusses scarcity, the basic economic problem, Unit Two presents choice and opportunity cost. Three is benefit/cost analysis, Four is marginalism, Five is exchange and Six is specialization in production according to comparative advantage. Once students master these reasoning tools, they are ready to think like an economist.
The next section presents the market system as an efficient method of providing incentives to production and facilitating exchange. The labor market is discussed as similar to other products, emphasizing the fact that students must develop a marketable bundle of human capital in order to survive in the 21st century global economy. Market imperfections are introduced to illustrate the fact that the perfect efficiency of markets is seldom reached. Government attempts to correct market imperfections are presented along with government imperfections. The goal of this section is to enable students to look at imperfect market outcomes and imperfect government outcomes and decide on an issue by issue basis which is the better of the two. The course should not present a conservative or a liberal bias, but enable students to make informed decisions based on their interpretation of each issue, armed with the tools of economic analysis.

The macroeconomics section does not go into great detail on the fine points of Keynesian, Monetarist, and other schools of macroeconomic thought. It is meant to familiarize students with the macroeconomy that they will hear and read about in the news. Optional Unit 17 is meant to prepare students who participate in the California Council on Economic Education’s Capital Market Contest.

International is not a separate unit, but is blended into units 5, 6, 8, and 22.

The emphasis of the Standards and this Guide is on the student. We have tried to boil this down to the essentials. (If you teach an AP class, you may find some of this useful but you will certainly not find it sufficient.) The California History/Social Science Standards for Grade 12 Principles of Economics emphasize the most powerful messages of economics that help students survive and prosper. Students who successfully complete this course may say that it is one of the most powerful courses they have taken in school and that they have a much better understanding of the world around them as a result of the course.

This should be the case because students live and participate in this economy. The course is really about them. It is based on nine economic principles.

1. **People choose.**
   While we will get into a much more detailed discussion on this topic, people too often think in terms of needs, which relegates them to no options and, therefore, no choice. In fact, we will make the argument that a discussion of needs has no place in an economics course because people are always choosing. Helping students recognize their decisions is one of the most important tasks of an economics course.

2. **Every choice has a cost.**
   People often use the expression, “There is no such thing as a free lunch,” which flies in the face of the experience of many students who have been eating what they consider “free” lunches for their entire school career. In this guide, we will state it slightly differently, “There is no such choice as a free choice.” Every time a decision is made, one alternative is selected and one is not. The one that is not selected is what the decision maker gave up. That is the cost of the choice.

3. **Benefit/cost analysis is useful.**
   As they progress through the school years, students make many decisions and the consequences of those decisions become more and more important as they grow. By the time they reach high school, they are making life-shaping decisions. It is important that they know how to use benefit cost analysis to help clarify the issues. Since benefit cost analysis can be helpful in so many areas, it is included in the Standards from grades K through 12.
4. Incentives matter.  
Students are constantly exposed to incentives. Grades are meant to act as an incentive to students. Often the grades themselves are insufficient so parents supplement these incentives with financial ones. Many of your students have a part-time or a full-time job. They work for financial incentive. Many of your students play a sport. They play for many reasons including self-satisfaction, fame, glory, and perhaps an opportunity to play in college. These are all incentives. So the concept is not new to them; you have an opportunity to show them how incentives apply in markets.

5. Exchange benefits the traders.  
Many of your students throw the term “ripoff” around very casually. They often view market transactions as win/lose situations. You have the opportunity to show them that people don’t voluntarily exchange unless they expect to gain more than they give up. This is a new and often enlightening insight for some.

6. Markets work with competition, information, incentives and property rights.  
Your students are all consumers so they are familiar with the product market. You have the opportunity to help them identify the motivating forces behind particular markets and the constraints faced by participants on both sides of those markets. You can point out the importance of competition and the results if competition or other important market components are missing. You can address the concept of missing market components to help them analyze strong social concerns such as poverty, pollution, endangered species, and others.

7. Skills and knowledge influence income.  
As mentioned, many of your students are working at part-time or full-time jobs and most hope to “get a good job” when they leave school, regardless of whether they plan to leave school at the end of 12th grade or after college. The problem is that many fail to recognize the connection between school, skills and knowledge (human capital), and income. This course can dramatize that connection for them.

8. Monetary and fiscal policies affect peoples’ choices.  
While macroeconomics is a mystery to many people, the fundamentals taught in the high school economics course are pretty straightforward. Understanding basic economic indicators such as changes in Gross Domestic Product, the unemployment rate or the Consumer Price Index and the impact that those changes have on them will help students understand the state of the economy and their position in the economy. How monetary and fiscal policies attempt to influence these variables and the affect that those policies have on your students can be a revelation for them.

9. Government policies have benefits and costs.  
In a recent national survey, over 60% of high school students thought that government would determine their income. They had little idea of the ways in which governments (local, state, and national) influence them. Besides monetary and fiscal policy, governments affect our students’ lives through income redistribution policies, regulation of prices, trade policies, and government regulations. Much like a study of monetary and fiscal policy, government action in the economy and the effects of those actions are surprising to many students.

Teaching and learning economics can be very exciting. Our hope is that you and your students have a terrific educational experience.

Jim Charkins, Executive Director  
California Council on Economic Education
# GRADE 12 STANDARDS

## THE STANDARDS

### 12.1 Students understand common economic terms and concepts and economic reasoning:

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<tbody>
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<td>the causal relationship between scarcity and choice</td>
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<tr>
<td>2</td>
<td>opportunity cost and marginal benefit and marginal cost</td>
</tr>
<tr>
<td>3</td>
<td>the difference between monetary and non-monetary incentives and how changes in incentives cause changes in behavior</td>
</tr>
<tr>
<td>4</td>
<td>the role of private property as an incentive in conserving and improving scarce resources, including renewable and non-renewable natural resources</td>
</tr>
<tr>
<td>5</td>
<td>the role of a market economy in establishing and preserving political and personal liberty (e.g., the work of Adam Smith)</td>
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### 12.2 Students analyze the elements of America’s market economy in a global setting:

<table>
<thead>
<tr>
<th>Section</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>the relationship of the concept of incentives to the law of supply and the relationship of the concept of incentives and substitutes to the law of demand</td>
</tr>
<tr>
<td>2</td>
<td>the effect of changes in supply and/or demand on the relative scarcity, price and quantity of particular products</td>
</tr>
<tr>
<td>3</td>
<td>the role of property rights, competition, and profit in a market economy</td>
</tr>
<tr>
<td>4</td>
<td>how prices reflect the relative scarcity of goods and services and perform the allocative function in a market economy</td>
</tr>
<tr>
<td>5</td>
<td>the process by which competition among buyers and sellers determines a market clearing price</td>
</tr>
<tr>
<td>6</td>
<td>the effect of price controls on buyers and sellers</td>
</tr>
<tr>
<td>7</td>
<td>the role of domestic and international competition in a market economy in terms of goods and services produced, and the quality, quantity, and price of those products</td>
</tr>
<tr>
<td>8</td>
<td>the role of profit as the incentive to the entrepreneurs in a market economy</td>
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<tr>
<td>9</td>
<td>the functions of the financial markets</td>
</tr>
<tr>
<td>10</td>
<td>the economic principles that guide the location of agricultural production and industry and the spatial distribution of transportation and retailing facilities</td>
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### Section 12.3 Students analyze the influence of the federal government on the American economy:

<table>
<thead>
<tr>
<th>Section</th>
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<tbody>
<tr>
<td>1</td>
<td>how the role of government in a market economy often includes providing for national defense, addressing environmental concerns, defining and enforcing property rights, attempting to make markets more competitive, and protecting consumer rights</td>
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<td>2</td>
<td>the factors that may cause the costs of government actions to outweigh the benefits</td>
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<tr>
<td>3</td>
<td>the aims of government fiscal policies (taxation, borrowing, and spending) and their influence on production, employment, and price levels</td>
</tr>
<tr>
<td>4</td>
<td>the aims and tools of monetary policy and their influence on economic activity (e.g., the Federal Reserve)</td>
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### 12.4 Students analyze the elements of the United States labor market in a global setting:

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<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>the operations of the labor market, including the circumstances surrounding the establishment of principal American labor unions, procedures used to gain benefits for its members, the effect of unionization, the minimum wage, and unemployment insurance</td>
</tr>
<tr>
<td>2</td>
<td>the current economy and labor market including the types of goods and services produced, types of skills necessary, the effect of rapid technological change, and the impact of international competition</td>
</tr>
<tr>
<td>3</td>
<td>wage differences among jobs and professions using the laws of demand and supply and the concept of productivity</td>
</tr>
<tr>
<td>4</td>
<td>the effects of international mobility of capital and labor on the U.S. economy</td>
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### 12.5 Students analyze the aggregate economic behavior of the United States economy:

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<tbody>
<tr>
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<td>2</td>
<td>defining, calculating and explaining the significance of an unemployment rate, the number of new jobs created monthly, an inflation or deflation rate, and a rate of economic growth</td>
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<tr>
<td>3</td>
<td>distinguishing between short-term and long-term interest rates and explaining their relative significance</td>
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### 12.6 Students analyze issues of international trade, and explain how the U.S. economy affects, and is affected by, economic forces beyond its borders:

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<tr>
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<tr>
<td>1</td>
<td>the gains in consumption and production efficiency from trade with emphasis on the main products and changing geographic patterns of twentieth century trade among countries in the eastern hemisphere</td>
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<tr>
<td>2</td>
<td>the reasons for and the effect of trade restrictions in the Great Depression compared with the present day arguments among labor, business, and political leaders over the effects of free trade on the economic and social interests of various groups of Americans</td>
</tr>
<tr>
<td>3</td>
<td>the changing role of international political borders and territorial sovereignty in a global economy</td>
</tr>
<tr>
<td>4</td>
<td>explain foreign exchange, how exchange rates are determined, and the effects of the dollar gaining (or losing) value relative to other currencies (a strong or weak dollar)</td>
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</tbody>
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Standards: 12.1 Students understand common economic terms and concepts and economic reasoning

Principle 1: People can’t have everything they want, so they choose.

Introduction — the important first day, setting the stage.

As Mark Twain so clearly stated, “You only have one chance to make a first impression.” As with people, so it is with subjects such as economics. Most high school students and many adults either have no idea what economics is or have some very strange ideas about the subject. They may think that it is all about money and the stock market; they may think that it is about selfish people trying to rip them off; or they may think that it is all about graphs. So it is important to let them know right away that economics is about improving society and increasing individuals’ well-being.

It is a practical guide to life. It is a way of thinking. It is a way of making personal and social decisions. It is about them. It may be the most important course they ever take. People who use economic reasoning can lead happier and more productive lives even if they have no interest in money or things.

[Caution] In the first two units, some of the information may contradict your students’ prior learning. If so, you may want to explain to the students that economics is a way of thinking that is based on some fundamental principles. As they become familiar with some of these principles, the subject will make more sense and they will begin to develop an appreciation for the economic way of thinking. But it is probably a good idea to state that you hope they will think a little bit differently as a result of this course.

The Problem and the Goal

The key to all economic reasoning is the fact that resources are limited and insufficient to fulfill our wants. This has to be the starting point for an economics course. Resources are the constraint. The fact that resources are limited holds us back from achieving desirable individual and social goals. If resources were unlimited, there would be no study of economics.

While many people think economics is about greedy people trying to make lots of money, this is not the case. Most people want a good and fulfilling job, friendship and love, health, contentment, and some “stuff.” The problem is that we
can’t always have all of that because our resources are insufficient to enable us to “have it all.” Similarly, most people would agree that it would be good to have more and better education for all, a cleaner environment, quality health care for all, greater public safety, less stress, preservation of nonrenewable resources, and no poverty. But we seem to be unable to have all of these good things because our resources are insufficient to allow us to “have it all.”

Economics is about decisions concerning the use of resources (inputs for producing goods and services) for the purpose of improving peoples’ lives. Goods are things that fulfill people’s wants; services are actions that fulfill people’s wants. The problem is that limited resources are insufficient to fulfill all our wants. Enter economics! The goal of economic analysis is to investigate ways to get the most that we can from our limited resources in order to improve people’s lives and to increase wealth.

The word “wealth” will cause some misunderstanding among your students. They are likely to confuse it with money. **Wealth is the subjective evaluation of individual and societal well-being.** If we could measure it, we would ask people, “How YOU doin’?” and ask them to respond on a “0” to “10” scale. Then we could add up the responses and get some indication of society’s wealth. (There will be problems in just adding them up because some people’s wealth might be influenced by other people’s wealth. A parent’s wealth is likely to be influenced by how their children are doing; a friend’s wealth might be influenced by how their friends are doing. Some might be jealous of others and their wealth might fall as others’ wealth increases.) This type of measurement is, obviously, very difficult, but students should know that the goal of economic analysis is to make the best use of limited resources to improve wealth.

**More about Resources**

Most economics textbooks list land, human capital, physical capital, and entrepreneurship as resources. While distinguishing these resources is important, nit picking about the distinctions is neither necessary nor helpful. In general, the four categories of resources are as follows:

- **HUMAN CAPITAL**

  [Many textbooks discuss “labor” instead of ‘human capital.” We use “human capital” because it involves much more than physical attributes and helps students focus on the reason why they are in school.]

For an economy, human capital is the sum of the skills and knowledge possessed by individuals. Accumulated human capital is the combination of natural ability, education, training, and experience. One of the most common decisions most people make is the development, accumulation, and use of their limited human capital. Money is no more than a way to exchange human capital for desired goods and services. In general, the greater the human capital, the more money earned, the greater the ability to consume goods and services. The constraint is not money; it is human capital. Short of winning the lottery or inheriting money, development of human capital is the most effective way of consuming goods and services and increasing wealth.

But consumption of goods and services is only one of many possible goals for use of human capital. Some may choose to use their human capital for leisure, others for the pursuit of wisdom, others for prayer. Regardless of the goal, greater human capital provides individuals with a greater quantity and quality of alternatives to lead the life they desire. Human capital is the resource that provides most of the income for most people; it is their “go to” resource. Development and use of human capital is extremely important in determining the type of life people live. In addition, the greater the
quality of human capital, the more productive is an economy. One of the most effective ways of helping an economy grow is to improve the quality of human capital through education.

**PHYSICAL CAPITAL**

The physical capital of an economy is the sum of the tools and facilities used in production such as hammers, saws, computers, conveyors, buildings, factories, and storage and distribution facilities. Technically, physical capital is the sum of all goods produced for the purpose of producing other goods and services. Examples include a hairdresser’s comb and scissors, a carpenter’s hammer and nails, an executive’s computer, palm pilot and fax machine, factories, schools, and movie theaters. In economics, investment is defined as the purchase by businesses of plant, inventories, and capital equipment. Investment increases the capital stock of an economy and is, along with investment in human capital, one of the main forces behind economic growth. Notice that the term capital is different from the common usage of the word. People sometimes refer to money as capital. In economics, capital refers to things that have been produced for the purpose of producing other goods and services. The phrase *financial capital* is sometimes used, but it has a very different meaning than the generic capital referred to in this unit.

**LAND**

Natural resources such as oil, gold, forests, water, copper, and other minerals are all considered to be land. Land includes all of the natural resources of an economy. Many make the mistake of assuming that an economy that is rich in natural resources is a powerful economy; there are many counterexamples that illustrate the fact that this is not true. Many nations in Africa and South America are awash in natural resources but have low per-capita incomes. Another example is Japan with few natural resources, but a very high per-capita income. It appears that an abundance of natural resources improves a strong economy, but can’t be the “mover” that takes a poor economy to strength and prosperity.

**ENTREPRENEURSHIP**

That’s a mouthful to say and difficult to spell, but important to learn. Entrepreneurs are the “pilots” of a market economy. They combine the other resources discussed above to produce a new product or find a new way to produce an existing product. Since an entrepreneur is often the “boss”, he or she is the risk taker and the “residual claimant” of an organization. What that means is that the entrepreneur “takes what’s left” after all other productive resources have been paid. If they succeed, “what’s left” is called profit; if they fail and can’t pay for all of the resources they have used, what’s left is called loss. Successful entrepreneurs are successful because they provide goods and services for which individuals are willing to pay and they produce those goods and services efficiently. And the payment for those goods and services must be greater than production costs or the activity can’t continue for long.

Successful entrepreneurs such as George Washington Carver (use of agricultural products including the peanut), Fannie Farmer (the first commercial cookbook), John McCormick (the McCormick Reaper), Madam C.J. Walker (Hair products for African American women), Thomas Alva Edison (light bulbs, radio, and much more), Mary Kay (cosmetics), Ray Kroc (McDonalds), Famous Amos (cookies), Steven Jobs (Apple computers), and Bill Gates (Microsoft) have transformed the way people lead their lives. Before John Deere introduced the mechanized tractor, 96% of the U.S. labor force was providing food for the populace. Today, largely because of that first tractor and subsequent improvements in agricultural technology, 2% of the population provides that food.
Not money or time

Notice that there are two omissions on the list of resources that many would like to include — money and time. Money is an extraordinary device that allows people to exchange goods and services or resources for other goods or services or resources. A discussion of allocating money is really a discussion of allocating resources or goods or services.

Example:
Jose goes to a fast-food restaurant and uses $10 to buy dinner. Many would say that Jose is allocating money but the question has to be asked, “Where did Jose get the money?” Well, he earned it at his part-time job where he uses his human capital. The money allows him to exchange his human capital for goods and services he wants. Rather than going to the window at the hamburger place and offering to clean the floors for them in return for hamburgers, Jose simply takes his human capital to work, trades it for some money, then trades the money for some hamburgers. Money is the tool that allows him to exchange what he has for what he wants without having to convince every supplier of the thing that he wants that what he has is worth exchanging. The resource that he was using was actually his human capital.

It is true that money that is saved (not used to purchase goods and services) can earn interest and provide greater control over resources in the future. To save money is a decision to give up current consumption and the reward for this willingness earns interest. Once again, money is simply the medium by which the transformation takes place. Paying too much attention to money diverts attention from the importance of resources.

People often wish that they had more time. Well, time is simply a medium in which we allocate our limited resources. People have no choice concerning the number of hours that they have in a day (24), the number of minutes in each hour (60) and the number of seconds in each minute (60). The focus on time diverts attention from the more important concept of human capital. While people don’t control time, they do control the amount of human capital they possess and the way in which they choose to allocate that human capital. Often, when people say they didn’t have enough time to complete a project, they mean they didn’t have enough human capital and other resources. More would get done if two people were working on the job or if the person working on it had more skills and knowledge. The constraint is resources, not time.

Scarcity

So the problem is this — resources are limited and our wants tend to outstrip those resources. As individuals and as a society, we want more than our limited resources can provide. This inability of limited resources to fulfill our wants is called scarcity. The challenge is to get the most from limited resources.

Scarcity is not to be confused with limited or rare. Rare indicates that not much of the stuff exists regardless of whether people want it or not. Scarcity indicates that people want it, there is not enough of it to fulfill all those wants, that it has alternative uses, and that using the product one way means giving up something else. Scarcity is the relationship between wants and resources. Even the sands of the sea and the stars in the sky are limited, but they may or may not be scarce, depending on time and place. Using limited in the same breath as scarce muddies the water. A disease that is very rare is not likely to be scarce from the economist’s perspective.
If there is not much of it, but no one wants it, the good is not scarce. Nuclear waste is not scarce, my brother-in-law’s painting are not scarce. Resources are only scarce if they have to be allocated because the amount desired is greater than the amount available at a price of zero. They are scarce if, by using them one way, an opportunity to use them another way is given up; or, if one person’s use of them, denies another use. The key is whether a choice has to be made about the use of the resource.

**Example:**
Sand at the beach is limited but, in most cases, it is not scarce. Most people don’t want to haul a lot of sand home with them, so there is plenty of sand to go around at zero price. The little girl who wants to take a bucket of sand home can do so and pay no money. The gardener who lives in Fresno, however, doesn’t have a lot of sand lying around, so he goes to the nursery and pays a price for use of some sand. Sand is not scarce at the beach, but it is in Fresno.

[Caution] It is not necessary to take the step that many authors do and claim that wants are unlimited. The problem with using the term “unlimited” is that it often leads to a lengthy and unproductive discussion where students use examples of people who seem to have limited wants. The concept of unlimited wants is not necessary for the point to be made that resources have to be allocated. As long as resources are insufficient to satisfy an individual’s or society’s wants, scarcity exists. The unlimited condition is not wrong; it is just not necessary and can lead to a distracting discussion.

In a world without scarcity, society could have everything that people want, and no sacrifices would have to be made, no cost would have to be paid. All of the police protection would be provided although it is hard to see why police protection would be necessary. Obviously, there would be no reason to steal anything since everyone could have everything he or she wanted without stealing. The best medical care would be available to everyone. Prescription drugs would not be an issue. All of society’s wants and all individual wants would be satisfied.

The goal — greater wealth for individuals and society
But scarcity does exist. Economic analysis can help to get more from limited resources. The goal of the use of economic analysis is to increase wealth, but wealth with a very particular meaning. The wealth of a nation is the subjective evaluation by individuals of their well-being. If someone “smells the flowers” and is happier as a result of that, the individual’s wealth, and by mathematical necessity, the wealth of the nation has increased. So, if people are happier, for whatever reason, a society’s wealth has increased. As we help students master economic reasoning, the goal is for them to use this powerful tool to improve their lives in any way that they see fit. That may come from the accumulation of financial wealth or from pursuit of recreational activities, or from pursuing charitable goals. Given the fact that resources are limited, economic analysis can help people get more from those resources, increasing their well-being. For this reason, it is important that students understand, from the beginning, what we mean by wealth. It can dispel the notion that economics is about money and greed.
Main Points:
- Resources are scarce; they are insufficient to fulfill society’s wants.
- Land, physical capital, human capital, and entrepreneurship are resources; time and money are not.
- Scarcity is the inability of our limited resources to satisfy our wants.
- Wealth is the subjective evaluation of well-being.
- Marginal analysis compares the marginal benefits with the marginal opportunity costs of two alternatives.
- The goal of economic analysis is to increase individual and societal wealth.

Bulletin Board Quotes:
- Scarcity stinks!
- Rare is different from scarce.
- Resources: human capital, physical capital, land, entrepreneurship
- Time and money are not resources.
- How YOU doin’?
- Economic analysis improves our lives.
### Incorrect Statement | Correct Statement

<table>
<thead>
<tr>
<th><strong>Wealth is money.</strong></th>
<th>Wealth is the subjective evaluation of individual and societal well-being.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Time and money are resources.</strong></td>
<td>Resources include human capital, physical capital, land, and entrepreneurship. Time is a medium in which we live and work, money is a tool that allows people to exchange goods and services.</td>
</tr>
<tr>
<td><strong>Limited is the same as scarce.</strong></td>
<td>Limited simply means that there is a finite, not unlimited, amount of a thing. Scarce indicates that when there is a demand for the good, it has alternative uses. Using the product in one way means giving up using it in another way.</td>
</tr>
<tr>
<td><strong>Rare is the same as scarce.</strong></td>
<td>Rare indicates that not much of the stuff exists regardless of whether people want it or not. Scarce indicates that people want it, the good has alternative uses, and that using the product one way means not using it another way.</td>
</tr>
<tr>
<td><strong>Rich people don’t face scarcity.</strong></td>
<td>If rich people have to allocate any resources, including their human capital, to achieve their goals — which means choosing some alternatives and refusing others — then they face scarcity.</td>
</tr>
<tr>
<td><strong>Scarcity and shortage are the same.</strong></td>
<td>More will be said in later units, but a shortage only exists at a particular price. Shortages can be eliminated by raising the price.</td>
</tr>
<tr>
<td><strong>Scarcity can be eliminated.</strong></td>
<td>As long as people have goals, individuals and society face unmet wants. We can make better decisions if we deal with scarcity; but we can’t eliminate it.</td>
</tr>
<tr>
<td><strong>Economics is about money.</strong></td>
<td>Finance is about money. Economics is about getting the most from limited resources. What we get from limited resources is both tangible and intangible.</td>
</tr>
</tbody>
</table>
1. When discussing the basic economic problem, which of the following would NOT be included?
   a. wants  
   b. resources  
   c. time  
   d. scarcity

2. Which of the following best summarizes the concept of scarcity?
   a. Life is so hard!  
   b. Things are not fair.  
   c. You can’t have everything you want.  
   d. People are out to get you.

3. If fewer classes are offered at a state university, the villain is:
   a. the faculty  
   b. the campus president  
   c. the state legislature  
   d. none of the above

4. According to economics, the best description of wealth is:
   a. lots of money  
   b. subjective evaluation of well-being  
   c. money accumulated over a long period of time  
   d. inherited money

5. Which of the following statements is true? Economics is mainly about
   a. money  
   b. resources  
   c. the stock market  
   d. greed

6. Which resource provides the majority of income for most people?
   a. physical capital  
   b. human capital  
   c. land  
   d. entrepreneurs

7. Human capital is:
   a. the amount of money a person has  
   b. the amount of things a person owns  
   c. the number of machines a person can operate  
   d. the amount of skills and level of education a person has attained
8. One of the most effective ways of helping an economy grow is to:
   a. improve the quality of human capital through education
   b. give people more time
   c. limit scarcity
   d. give people more money

9. Scarcity is only:
   a. a problem for poor people
   b. a relationship between wants and resources
   c. a cost when money is limited
   d. an issue when things aren’t abundant
Answers to Multiple Choice Questions
1. c
2. c
3. d
4. b
5. b
6. b
7. d
8. a
9. b

Resources
• NCEE – “Capstone – Exemplary Lessons for High School Economics,” Unit 1 Lesson 2: Scarcity and Abundance